October 25, 2002

VIA HAND DELIVERY

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, Massachusetts 02110

Re: Western Massachusetts Electric Company Request for Approval of Standard Offer Solicitation for Calendar Year 2002

Dear Secretary Cottrell:

In a filing submitted earlier today, Western Massachusetts Electric Company ("WMECO") requested approval by the Department of Telecommunications and Energy ("Department") of a contract to supply WMECO with Standard Offer service for calendar year 2003. As in past Northeast Utilities Service Company solicitations to obtain Standard Offer service for WMECO, an independent consultant was retained by the Division of Energy Resources to oversee the procurement process. John E. Higgins, Jr., a principal with Navigant Consulting, Inc.'s Energy & Water group was the consultant retained. Attached is Mr. Higgins written communication regarding the Standard Offer service procurement process. Mr. Higgins characterizes the solicitation as "thorough, consistent, and fair to each of the bidders."

Please contact me should you have any questions with respect to the above.

Sincerely,

Stephen Klionsky

cc: Paul Afonso
Ronald LeComte
Jeanne Voveris
Joseph Rogers
Matthew T. Morais

NAVIGANT CONSULTING, INC.

INDEPENDENT EVALUATION OF NORTHEAST UTILITIES SERVICE COMPANY'S PROCUREMENT OF STANDARD OFFER SERVICE FOR WESTERN MASSACHUSETTS ELECTRIC COMPANY FOR CALENDAR YEAR 2003

OCTOBER 2002

Overview of the Solicitation Process

A. The Request for Proposals

On October 1, 2002, the Company issued its RFP for WMECo's Standard Offer Service requirements. Similar to prior Standard Offer Service solicitations, the RFP was for full requirements service solicited in four vertical blocks of 25% of WMECo's total annual requirements (totaling approximately 563 MW and 3,110 GWh). The Company sent the RFP and related information to suppliers who actively participate in the New England market; many of who have responded to past Standard Offer and Default Service solicitations held by the Company. Appendix A contains a list of the suppliers who received a copy of the RFP.

The RFP solicitation process was designed to be simple and straightforward, and was similar in structure and format to past solicitations. Under the rules of the RFP, the Company required monthly fixed, single-part pricing for the entire 12-month term. Bidders could offer binding proposals to serve any number of the four vertical blocks, with different pricing allowed for each block. Under the rules of the RFP suppliers must provide proposals that are inclusive of all of the Power Services and costs that are associated with providing the services related to meeting WMECo's Standard Offer Service requirements. Unlike past solicitations, WMECo required bidders to provide pricing for three specific scenarios. The scenarios were designed to offer the Company significant flexibility given the uncertainty that relates to the implementation of Standard Market Design (SMD) and locational marginal pricing (LMP) in New England. The scenarios are as follows:

?? Scenario A assumes that the existing interim market structure continues for part or all of the term;

?? Scenario B1 assumes the implementation of SMD in New England during the term of the solicitation. It specifies that the bidder will assume the load obligation at the WMECo Metering Domain, and will be responsible for all congestion charges associated with serving the load. Bidder would also receive the Auction Revenue Rights (ARRs) related to serving the load at that location.

?? Scenario B2 also assumes the implementation of SMD during the term of the solicitation, with the bidder assuming the load obligation at the WMECo Metering Domain. However, unlike Scenario B1, this scenario specifies that WMECo would be responsible for all congestion charges associated with serving the load. Similarly, WMECo would receive the Auction Revenue Rights related to serving the WMECo requirements.

The Company indicated in the RFP that it had a strong preference for selecting proposals under Scenarios B1 after SMD is implemented. For all of the scenarios, the bidder is responsible for the present and future requirements and costs associated with energy, installed capability, operating reserves, regulation services, and other Power Services as required. Under the terms of the RFP, NUSCo will make arrangements for the appropriate delivery services, including (a) Regional Network Service under NEPOOL's open access tariff, (b) Local Network Service under WMECo's open access tariff, and (c) distribution service under the jurisdictional retail delivery tariff of the D.T.E.

The RFP also outlined four specific qualification requirements for participating in the RFP process: 1) maintain NEPOOL membership, 2) meet several financial performance assurance requirements, 3) provide contract performance security (as required), and 4) meet the deadline for the RFP. The financial performance assurance requirements require that bidders either demonstrate Investment Grade Bidder status, as defined in the RFP, or provide evidence of acceptable performance security. Unlike past solicitations, Bidders who are not qualified as Investment Grade Companies must provide performance security in the form of an irrevocable letter of credit in the amount of $7.5 million per vertical block for the term of the purchase.

Finally, the RFP provided instructions for submitting proposals and a brief description of the bid evaluation process. A copy of the standard contract was also provided to potential bidders as part of the solicitation process, providing an opportunity for potential bidders to edit and suggest alternative contract language to the Company for evaluation.

B. RFP Timeline

Similar to last year's solicitation for Standard Offer Service, the Company maintained an aggressive schedule for evaluating all proposals and negotiating a favorable contract. Bids were required to be submitted between 8:00 a.m. and 10:00 a.m. on October 17, 2002, with the affiliate bid due before 5:00 p.m. on October 16, 2002. All bids were required to be firm and binding until 6:00 p.m. on October 17, 2001. The Company's intent was to encourage bidders to provide aggressive, firm pricing with minimal consideration for risk of price volatility. To facilitate the contract negotiation process, the

Company required bidders to provide qualification and supporting information and proposed changes to the standard contract prior to the response deadline of the RFP, by October 10, 2002.

C. Questions Related to the RFPs

Subsequent to the release of the RFP, the Company received several questions from potential bidders. Each of the questions received by the Company focused on customer load data, delivery point, and customer migration information. Based on the information provided to the IE, the Company appeared to have responded to these requests in a consistent and prompt manner, providing only the entity that submitted the question with a response.

Conclusions on the Solicitation/Procurement Process

In summary, the Company's Standard Offer Service procurement process can be characterized as simple, straightforward, and competitive, attracting many qualified suppliers for providing all or a portion of the Company's standard offer service requirements. The Company solicited four all-requirements vertical blocks of 25% of the Standard Offer Service requirement for the 12-month term beginning January 1, 2003. In response, the Company received proposals from 11 qualified suppliers, many of which have participated in past solicitation processes. The Company assessed each of the proposals, carefully considering bid price and proposed changes to the contract terms as part of its assessment. Pricing offered by the bidders as part of the procurement process is believed to be competitive and reflective of current pricing market conditions. Proposed changes to the contract terms were carefully evaluated from the perspectives of potential risk exposure and economic benefit, with the Company appropriately declining to accept risks associated with broad changes in market rules for New England.

The Company's procurement implementation and bid evaluation process is believed to have been thorough, consistent, and fair to each of the bidders. It is not believed that the Company or its solicitation process offered preferential treatment to any of the bidders. Moreover, the proposal solicitation, evaluation, and bid negotiation process implemented by the Company is believed to have obtained the benefits of a competitive process for the WMECo Standard Offer Service customers, while mitigating any unreasonable risks that may have existed under proposed changes to contract terms. At the conclusion of the process, the Company was able to negotiate a contract that offers WMECo Standard Offer Service customers a least-cost supply of power while limiting undue exposures to price risk.